A5173-5.1F 6/89

HIAA

Health Insurance Association of America

# RESEARCH BULLETIN

## A PROFILE OF EMPLOYER-SPONSORED GROUP HEALTH INSURANCE IN THE UNITED STATES

# RESEARCH BULLETIN

# A PROFILE OF EMPLOYER-SPONSORED GROUP HEALTH INSURANCE IN THE UNITED STATES

Steven DiCarlo

Thomas Musco

Health Insurance Association of America

February 1989

## INTRODUCTION

In 1988, the Health Insurance Association of America (HIAA) conducted a survey of employers that included all sponsors of employer-based conventional group health insurance as well as managed health plans: health maintenance organizations (HMOs) and preferred provider organizations (PPOs).

This report contains results from this survey and focuses on two aspects. First we compare conventional fee-for-service plans with HMOs and PPOs, and we take a closer look at conventional plans by type of sponsor.

HIAA analysed commercial group health insurance in the United States in 1980 and 1984. Where comparisons between 1988 and the two previous studies can be made, they are included in this report and will be limited to commercial insurers conventional business only.

These survey results represent 84 percent of the employer-provided group health insurance sold in the United States.

## METHODOLOGY

The data herein are based on a national survey of 1,665 randomly selected employers who offer health insurance benefits to their employees. Telephone interviews, conducted in spring 1988, included as many as 100 questions about the firms' largest conventional, HMO and PPO plans.

The sample, which represents an estimated 84 percent of the United States population that receives its health insurance through their employer, includes large (1000+ employees), medium (100-999 employees), and small (<100 employees) firms from the public and private sectors. Two segments of the U. S. employer-based population are missing - federal employees and individuals who obtain their insurance through a union or a professional association.

We completed 70 percent of the interviews, and in these findings we applied a series of weights to make the sample representative of national estimates for the U.S. population covered by employer-sponsored group health insurance. All figures represent full-time employees with health insurance coverage.

2

# STUDY FINDINGS

## *Conventional Plans, HMOs and PPOs*

A conventional health insurance plan is defined as a traditional indemnity or fee-for-service plan, which usually reimburses health providers on a reasonable and customary basis or on a billed as charged basis. These plans have until recently paid claims submitted without questioning the necessity of the treatment. However, most have begun to institute some type of managed care provisions: cost-savings features such as preadmission certification or second surgical opinion. Both managed and unmanaged conventional plans are included in our analysis, with conventional plans defined as non-HMO and non-PPO plans.

An HMO is a health care delivery system that provides comprehensive medical care for a predetermined periodic payment. HMOs place emphasis on preventive care and have a potential for greater cost-effectiveness through incentives to primary care physicians to manage health care expenditures. Members have small copayments (usually $5 or less) and have no additional cost-sharing requirements.

There are four types of HMOs, three of which are similar: staff, group and network models. They provide services through multispecialty physician group practices. The fourth type is an individual practice association (IPA) where services are provided by physicians, in their own offices, who contract with the HMO. All HMO members are expected to receive care only from affiliated providers.

PPOs, also referred to as preferred provider arrangements (PPAs), are groups of hospitals and physicians that contract with employers, insurers, third-party administrators or other sponsoring groups to provide comprehensive medical care. An employee in a PPO has the choice of getting services from these contracting hospitals and physicians or going outside this network to receive care. When employees go to a contracting hospital or physician, they usually pay less. For example, if they receive treatment within a PPO network, they may pay a deductible of $100 and 10 percent of the bill; if they seek services elsewhere they may face a deductible of $200 and a coinsurance rate of 20 percent or 30

percent. Providers benefit by having eligible employees directed to their practices, while employers and insurers receive discounts on fees for services.

The first section of this report deals with the differences between these three types of plans. Where comparisons can be made, they refer to trends seen in the 1988 and 1987 HIAA surveys of employers.

## *Cost-Sharing Provisions*

Given the fact that HMOs require little or no cost sharing, we restricted our questions to conventional and PPO plans (see Table 1). The PPO figures are further divided between what employees pay for services within the PPO and for outside services.

Although the perception persists in the health care industry that deductibles are steadily increasing to help lower employer costs, our survey does not reflect this belief. Deductibles are still relatively low (a median of $100) for the majority of employees in conventional plans and for those using a preferred provider in a PPO. Even using a nonpreferred provider costs only an additional $100. The discrepancy between our findings and the industry perception may be due to analysts' concentration on large companies on the cutting edge of the health care system. Our survey represents all employers. In the United States, more than 50 percent of employees work for a firm with fewer than 100 employees.

Coinsurance rates have been stable for many years; the employer pays 80 percent of the cost and the employee pays 20 percent. Our survey shows this is still true for conventional plans and nonpreferred provider users. In contrast, if an employee goes to a preferred provider, the employee usually pays only 10 percent of the cost.

In terms of maximum benefit levels and employee outlays, our survey reveals two trends. Employers seem to be limiting their overall risk by putting a cap on how much they are liable for each employee over their lifetime. In the late 1970s and early 1980s, surveys showed increases in lifetime maximums. However, possibly because of escalating health care costs and the continuing threat of high-cost items such as transplants, employers appear to be limiting their liability.

The second trend shows a slight shift toward limiting maximum out-of-pocket expenses for an employee within a given year. Even though employers want to reduce costs, they seem to realize that unlimited out-of-pocket expenses for employees is unreasonable.

## Table 1

Cost-Sharing for Persons with Employment-Related Group Insurance by Type of Plan, 1988

| | Conventional Plan | PPO Plan | |
|---|---|---|---|
| | | (using a non-preferred provider) | (using a preferred provider) |
| Plan deductible (in dollars): | | | |
| Individual coverage | 100 | 200 | 100 |
| Family coverage | 300 | n/a | n/a |
| Coinsurance rate (in percentage): | | | |
| 100% - 0% | 6 | 4 | 23 |
| 90% - 10% | 3 | 9 | 43 |
| 80% - 20% | 79 | 61 | 21 |
| 70% - 30% | 1 | 11 | 1 |
| Other | 11 | 15 | 12 |
| Maximum out-of pocket expense (in percentage): | | | |
| $ 500 or less | 18 | 26 | |
| $ 501 - 1,000 | 36 | 27 | |
| $1,001 - 2,000 | 29 | 23 | |
| $2,001 or more | 9 | 15 | |
| No limit | 5 | 6 | |
| Other | 3 | 3 | |
| Lifetime family maximum benefit (in percentage): | | | |
| Less than $1 million | 34 | 40 | |
| $1 million or more | 45 | 44 | |
| Unlimited | 21 | 17 | |

## *Benefits*

Table 2 shows the percentage of employees covered for specific benefits by type of plan. Overall, HMOs score well in most categories, with the exception of dental and orthodontia coverage. Conventional plans lack coverage for preventive care such as physical exams, well-baby care and preventive diagnostic procedures. PPOs cover the middle ground and tend to have minimum preventive benefits.

**Table 2**

Percentage of Employees Covered for Specific Benefits by Type of Plan, 1988

Short-term disability (all plans) - 57
Long-term disability (all plans) - 66

| | Conventional Plan | PPO Plan | HMO Plan |
|---|---|---|---|
| Adult physical exams | 27 | 39 | 97 |
| Well-baby care | 45 | 62 | 98 |
| Preventive diagnostic procedures | 61 | 72 | 98 |
| Prescription drugs | 93 | 94 | 93 |
| Home health care | 84 | 90 | 89 |
| Mental health: | | | |
| Outpatient | 94 | 97 | 96 |
| Inpatient | 98 | 96 | 98 |
| Treatment for substance abuse | 87 | 93 | 98 |
| General dental care | 42 | 33 | 20 |
| Orthodontia | 30 | 26 | 13 |

Table 3 shows the percentage of employer plans offering specific benefits by type of plan. The difference between Table 2 and Table 3 is that Table 2 counts each employee as one unit, whereas Table 3 counts each employer as a unit. Where differences between the percentage of employees covered for a particular benefit differ from the percentage of employers that offer the benefit, the effect is due to the size of the firms offering each benefit. For example, Table 3 reveals that 29 percent of employers in the United States provide short-term disability coverage, whereas Table 2 shows that 57 percent of employees are covered. This shows that large employers are most likely to offer this benefit because, while the employers are in the minority (29 percent), the employees in these firms (57 percent) are the majority.

In the employee-based analysis, the results are weighted heavily in the direction of large firms, whereas the opposite is true for employer-based results because the majority of employers operate firms with fewer than 100 workers.

### *Cost-Containment Provisions*

Table 4 illustrates the prevalence of cost-containment features imposed upon employees enrolled in conventional and PPO plans. Since this is the forte of HMOs, we assumed that all HMOs have some type of cost-containment provisions and therefore did not ask employers about these features.

More than half the employees covered under a conventional plan are now subject to a majority of the cost-containment features we surveyed, with preadmission certification as the most common. The only two features not yet predominant are incentives to buy generic drugs and laboratory tests required before hospital admission. Yet this last feature was incorporated into 53 percent of PPOs.

## CONVENTIONAL PLANS BY TYPE OF SPONSOR

Here we consider conventional health insurance plans in more detail. According to our survey, they still make up 71 percent of all employer-sponsored health insurance business and thus warrant a closer look. We examined them by one of four types of plan administration: commercial

## Table 3
Percentage of Employer Plans Offering Specific Benefits to Employees, by Type of Plan, 1988

Short-term disability (all plans) - 29
Long-term disability (all plans) - 32

| | Conventional Plan | PPO Plan | HMO Plan |
|---|---|---|---|
| Adult physical exams | 33 | 66 | 98 |
| Well-baby care | 52 | 70 | 97 |
| Preventive diagnostic procedures | 65 | 89 | 99 |
| Prescription drugs | 84 | 88 | 92 |
| Home health care | 76 | 94 | 82 |
| Mental health: | | | |
| Outpatient | 86 | 98 | 93 |
| Inpatient | 94 | 99 | 95 |
| Treatment for substance abuse | 79 | 97 | 95 |
| General dental care | 37 | 38 | 23 |
| Orthodontia | 27 | 27 | 18 |

insurance companies; Blue Cross and Blue Shield plans; third-party administrators; and employers themselves.

Where comparisons to prior years can be made, they refer to previous studies of commercial carrier-sponsored conventional plans conducted in 1980 and 1984.

**Table 4**
Percentage of Employees with
Cost-Containment Provisions in Plan, 1988

| | Conventional Plan | PPO Plan |
|---|---|---|
| Preadmission certification | 65 | 92 |
| Concurrent utilization review | 65 | 79 |
| Required lab tests before hospital admission | 34 | 53 |
| Mandatory second opinion for surgery | 51 | 63 |
| Case management for large claims | 51 | 78 |
| Incentives to buy generic drugs | 28 | n/a |
| Incentives to use ambulatory surgery | 54 | 67 |

If an employer fully insures its plan with a commercial carrier or with Blue Cross and Blue Shield, it is likely to have this insurer administer the plan. In contrast, if an employer self-funds its benefits, it will probably administer its own claims or hire a third-party administrator. Recent trends, however, suggest that commercial insurers are becoming much more involved in claims processing as the market for fully insured business shrinks.

When a company contracts with an employer to administer claims, it agrees to provide specific services for a fee, which include:

- Prepare and print a benefit plan booklet that states provisions of coverage, amount of benefits offered, cost-sharing features and

required steps an employee may have to take in order to be reimbursed for services;

- Provide personnel, procedures, forms and instructions for claims administration;
- Certify and track eligibility of employees to receive payments;
- Determine the qualification of claims submitted;
- Make payments for qualified claims with employer's funds for the amount due;
- Submit to the employer a monthly and annual accounting; and
- Provide a report to the employer detailing essential claims information.

The administrator is generally paid a percentage of the total claims recorded or a fixed cost per claim processed. If an employer administers its own plan, it would save this charge but would incur the cost of hiring additional personnel to process the claims in-house.

## *Cost-Sharing Provisions*

Table 5 shows the extent of cost-sharing requirements for employees with conventional coverage by type of administrator. Overall, there are few differences across types of plan administrators, with the possible exception of lifetime family maximums. TPAs and self-administered plans were more likely to put a cap on liability, showing that employers are more wary of unlimited liability when they bear the full financial risk.

Overall, commercially insured conventional plans are increasing out-of-pocket limits on their health expenses. In 1984, 69 percent of employees (based on revised survey results) had an out-of-pocket limit of $1,000 or less. In 1988, this figure had decreased to 59 percent. Similarly, the percentage of employees with large lifetime maximum benefit levels had declined from 56 percent with $1 million or more in 1984 to 41 percent in 1988.

## Table 5

Cost-Sharing for Persons with Employment-Related Conventional Group Insurance by Type of Administrator, 1988

| | Commercial Insurers | Blue Cross/ Blue Shield | TPA | Self-Administered |
|---|---|---|---|---|
| Plan deductible (in dollars): | | | | |
| Individual coverage | 150 | 100 | 150 | 150 |
| Family coverage | 300 | 300 | 300 | 300 |
| Coinsurance rate (in percentage): | | | | |
| 100% - 0% | 6 | 10 | 1 | 4 |
| 90% - 10% | 1 | 6 | 4 | 3 |
| 80% - 20% | 84 | 79 | 72 | 84 |
| 70% - 30% | 1 | 0 | 1 | 1 |
| Other | 8 | 5 | 22 | 8 |
| Maximum out-of-pocket expense (in percentage): | | | | |
| $ 500 or less | 20 | 29 | 12 | 12 |
| $ 501 - 1,000 | 39 | 23 | 47 | 37 |
| $1,001 - 2,000 | 29 | 25 | 27 | 43 |
| $2,001 or more | 7 | 7 | 11 | 5 |
| No limit | 2 | 11 | 2 | 2 |
| Other | 3 | 5 | 1 | 1 |
| Lifetime family maximum benefit (in percentage): | | | | |
| Less than $1 million | 31 | 34 | 31 | 37 |
| $1 million or more | 41 | 39 | 56 | 48 |
| Unlimited | 28 | 27 | 13 | 15 |

## *Benefits*

Table 6 details the percentage of employees covered under a conventional plan for specific benefits, by type of plan administrator. Commercial insurance carriers ranked the highest in preventive treatments and generally ranked high on every benefit offered. The percentage of

## Table 6

Percentage of Employees in Conventional Plans Covered for Specific Benefits, by Type of Administrator, 1988

| | Commercial Insurers | Blue Cross/ Blue Shield | TPA | Self-Administered |
|---|---|---|---|---|
| Short-term disability | 54 | 47 | 72 | 48 |
| Long-term disability | 66 | 47 | 71 | 76 |
| Adult physical exams | 34 | 31 | 18 | 15 |
| Well-baby care | 48 | 45 | 40 | 39 |
| Preventive diagnostic procedures | 60 | 67 | 59 | 52 |
| Prescription drugs | 94 | 90 | 94 | 98 |
| Home health care | 83 | 83 | 83 | 91 |
| Mental health: | | | | |
| Outpatient | 95 | 91 | 97 | 91 |
| Inpatient | 98 | 97 | 98 | 96 |
| Treatment for substance abuse | 88 | 79 | 85 | 86 |
| General dental care | 53 | 23 | 40 | 55 |
| Orthodontia | 37 | 18 | 31 | 31 |

employees with these benefits has almost doubled since 1980, and in some categories they have shown increases many times over. Coverage for preventive measures, such as adult physicals and well-baby care, were held by only 5 percent and 12 percent respectively of the employees in 1980. Those percentages have increased to 34 percent and

48 percent in 1988. Home health care has increased from 43 percent of covered employees in 1980 to 83 percent in 1988. Similarly, treatment for substance abuse increased from 46 percent to 88 percent.

Blue Cross and Blue Shield also ranked high in preventive benefits but had the lowest percentage of employees covered for dental and orthodontic benefits. Both TPA and self-administered plans ranked much lower in preventive benefits. On the other hand, they fared best in other categories: disability and mental health benefits. Self-administered plans had the largest percentage of employees covered for prescription drugs, home health care and general dental care.

Table 7 shows the percentage of employer plans offering specific benefits by type of plan.

## *Cost-Containment Provisions*

Table 8 illustrates the prevalence of cost-containment features in conventional plans. Blue Cross and Blue Shield consistently ranked last in every category except concurrent utilization review and laboratory tests required before hospital admission. Even in these two categories, they ranked only third, probably because the Blues administer a large portion of small employer plans, which are not usually innovative. Given the relative newness of cost containment, these employers have yet to catch on. In contrast to the Blues, the other three administrators each ranked consistently near the top. Overall, TPAs had the strongest showing, whereas self-administered plans were less likely to require concurrent utilization review and laboratory tests before hospital admission.

Overall, it appears that cost-containment features in conventional plans are continuing to grow rapidly regardless of who administers the plan. In only three to four years, features such as preadmission review, concurrent utilization review and mandatory second opinion for surgery have progressed from covering only 1 percent or 2 percent of employees to almost half to upwards of two-thirds of employees.

## *Conclusion*

This survey continues and expands upon previously collected trend data and shows that while standard measures such as coinsurance, deductibles and maximum benefit levels (generally used to compare health care benefit programs) have changed only slightly over the past

## Table 7

Percentage of Employer Conventional Plans Offering Specific Benefits to Employees by Type of Plan, 1988

| | Commercial Insurers | Blue Cross/ Blue Shield | TPA | Self-Administered |
|---|---|---|---|---|
| Short-term disability | 39 | 40 | 54 | 45 |
| Long-term disability | 52 | 40 | 59 | 58 |
| Adult physical exams | 38 | 33 | 35 | 8 |
| Well-baby care | 49 | 47 | 56 | 43 |
| Preventive diagnostic procedures | 66 | 70 | 65 | 46 |
| Prescription drugs | 87 | 80 | 77 | 92 |
| Home health care | 84 | 67 | 81 | 84 |
| Mental health: | | | | |
| Outpatient | 90 | 83 | 88 | 64 |
| Inpatient | 95 | 93 | 94 | 89 |
| Treatment for substance abuse | 82 | 79 | 76 | 72 |
| General dental care | 38 | 23 | 46 | 64 |
| Orthodontia | 28 | 18 | 39 | 24 |

eight to ten years, the internal structure of benefit provisions has undergone considerable change. This process has enhanced benefit packages in terms of preventive services, patient needs and social awareness, as well as set restrictions on patients' access to care in PPOs and HMOs.

## Table 8
Percentage of Employees in Conventional Plans with Cost-Containment Provisions in Plan, 1988

| | Commerical Insurers | Blue Cross/ Blue Shield | TPA | Self-Administered |
|---|---|---|---|---|
| Preadmission certification | 72 | 53 | 70 | 59 |
| Concurrent utilization review | 66 | 66 | 68 | 56 |
| Required lab tests before hospital admission | 32 | 35 | 36 | 30 |
| Mandatory second opinion for surgery | 55 | 39 | 53 | 63 |
| Case management for large claims | 55 | 32 | 57 | 70 |
| Incentives to buy generic drugs | 24 | 21 | 36 | 31 |
| Incentives to use ambulatory surgery | 55 | 40 | 62 | 68 |

Overriding this, however, is the ominous threat of rising health costs. To this end, we have seen a proliferation of potential cost-saving, cost-containing features added to conventional plans (which still account for more than 7 out of 10 people covered by employer-sponsored health insurance). We expect to see this trend continue so that eventually almost all conventional plans will contain some type of managed care provision. As this evolution continues, we hope it will translate into lower costs. This fear has also spurred the growth of PPOs and HMOs, which have been hailed as a more efficient way to control costs with

employers steadily jumping the ship of conventional plans for the life raft of PPOs and HMOs. While the quality of care among the different types of plans has not been assessed here, we can see that PPOs offer a financial incentive for employees. Our survey also shows that a typical PPO provides a broad benefit structure. HMOs offer good benefits, incorporate preventive treatments, require low out-of-pocket costs for members and have incentives for physicians to keep costs down.

While controlling health care costs appears to be on everyone's mind these days, for the majority of employees it has yet to translate into higher costs and reduced benefits. In 1988, at least, U.S. employers are willing to pay the bill for comprehensive, and thus expensive, health care.

## SUMMARY

- Cost-sharing in the form of higher deductibles and higher coinsurance rates has not yet affected the average employee. Deductibles and coinsurance remain at their previous rates.

- Employers appear to be moving in the direction of limiting liability by placing a cap on maximum lifetime benefits. Even so, two-thirds of employees in conventional plans had a maximum benefit of $1 million or more and 60 percent of employees in a PPO plan had $1 million or more of lifetime coverage.

- Employees are exposed to higher out-of-pocket annual maximums. Fifty percent of employees in conventional and PPO plans had an out-of-pocket maximum of $1,000 or less and 9 percent had a limit of $2,001 or more. Conversely, fewer employees have unlimited out-of-pocket expenses.

- HMO plans were much more likely to offer preventive benefits such as physical exams, well-baby care and preventive diagnostic procedures than were conventional or PPO plans.

- Of the three types of health plans (conventional fee-for-service, HMOs and PPOs), more employees in conventional plans were offered general dental care and orthodontia benefits than employees in either HMO or PPO plans.

- Preadmission certification was the most common cost-containment feature in both conventional and PPO plans.

- In conventional plans, cost-sharing features were similar among Blue Cross and Blue Shield, commercial insurers, TPAs and employer-administered plans.

- Conventional plans administered by commercial insurance companies were more likely to offer preventive benefits such as physical exams, well-baby care and treatment for substance abuse than other administrators.

- While cost-sharing features across insurers were similar, our survey shows there were differences in benefit packages based on who administered the plan. Plans administered by TPAs were the most likely to offer mental health benefits. Self-administered plans were most likely to offer prescription drugs, home health care and general dental care and were least likely to offer preventive benefits and mental health benefits. Blue Cross and Blue Shield plans were least likely to offer disability coverage, prescription drugs, treatment for substance abuse as well as general dental care and orthodontia coverage.

- Cost-containment provisions within conventional plans have now become the norm. Unmanaged conventional plans are rare.

HIAA

Health Insurance Association of America
1025 Connecticut Ave., N.W.
Washington, D.C. 20036-3998

R489